

103^D CONGRESS
2^D SESSION

H. R. 5106

To amend the Internal Revenue Code of 1986 to provide an exclusion from gross income for amounts contributed by an employer to medical incentives accounts of employees.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 26, 1994

Mr. SAXTON introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide an exclusion from gross income for amounts contributed by an employer to medical incentives accounts of employees.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION. 1. MEDICAL INCENTIVES ACCOUNTS.**

4 (a) IN GENERAL.—Part III of subchapter B of chap-
5 ter 1 of the Internal Revenue Code of 1986 is amended
6 by redesignating section 137 as section 138 and by insert-
7 ing after section 136 the following new section:

1 **“SEC. 137. MEDICAL INCENTIVES ACCOUNTS.**

2 “(a) EXCLUSION.—Gross income of an employee
3 shall not include any amount contributed during the tax-
4 able year by the employer to a medical incentives account
5 of such employee.

6 “(b) LIMITATIONS.—

7 “(1) MAXIMUM EXCLUSION.—

8 “(A) IN GENERAL.—Subsection (a) shall
9 not apply to contributions for the taxable year
10 in excess of \$3,000.

11 “(B) MEDICAL CARE COST ADJUST-
12 MENT.—

13 “(i) IN GENERAL.—In the case of any
14 taxable year beginning in a calendar year
15 after 1994, the dollar amount in subpara-
16 graph (A) shall be increased for such cal-
17 endar year by the medical care cost adjust-
18 ment for such calendar year.

19 “(ii) MEDICAL CARE COST ADJUST-
20 MENT.—For purposes of clause (i), the
21 medical care cost adjustment for any cal-
22 endar year is the percentage (if any) by
23 which—

24 “(I) the medical care component
25 of the Consumer Price Index (as de-

1 fined in section 1(f)(5)) for August of
2 the preceding calendar year, exceeds
3 “(II) such component for August
4 of 1993.

5 If any increase under the preceding sen-
6 tence is not a multiple of \$50, such in-
7 crease shall be rounded to the nearest mul-
8 tiple of \$50.

9 “(2) EMPLOYEE MUST HAVE EMPLOYER-PRO-
10 VIDED HEALTH INSURANCE.—Subsection (a) shall
11 not apply to any employee unless—

12 “(A) such employee is covered under insur-
13 ance which constitutes medical care (as defined
14 in section 213(d)), and

15 “(B) any portion of the cost of such insur-
16 ance is provided by such employee’s employer.

17 “(c) DEFINITIONS.—For purposes of this section—

18 “(1) MEDICAL INCENTIVES ACCOUNT.—The
19 term ‘medical incentives account’ means a trust cre-
20 ated or organized in the United States exclusively
21 for the purpose of paying (or reimbursing) the medi-
22 cal expenses of the account beneficiary, the spouse
23 of such beneficiary, or any dependent (as defined in
24 section 152) of such beneficiary, but only if the writ-

1 ten governing instrument creating the trust meets
2 the following requirements:

3 “(A) No contribution will be accepted un-
4 less it is in cash, and contributions will not be
5 accepted for the taxable year in excess of the
6 limitation under subsection (b)(1).

7 “(B) The trustee is a bank (as defined in
8 section 408(n)) or another person who dem-
9 onstrates to the satisfaction of the Secretary
10 that the manner in which such person will ad-
11 minister the trust will be consistent with the re-
12 quirements of this section.

13 “(C) The interest of an individual in the
14 balance in his account is nonforfeitable.

15 “(D) No part of the trust assets will be in-
16 vested in life insurance contracts.

17 “(E) The assets of the trust will not be
18 commingled with other property except in a
19 common trust fund or common investment
20 fund.

21 “(2) MEDICAL EXPENSES.—The term ‘medical
22 expenses’ means, with respect to the account bene-
23 ficiary, the amount paid by such beneficiary during
24 the taxable year which would be allowable as a de-

1 duction for the taxable year under section 213 but
2 for the threshold based on adjusted gross income.

3 “(3) ACCOUNT BENEFICIARY.—The term ‘ac-
4 count beneficiary’ means the employee for whose
5 benefit the medical incentives account is established.

6 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

7 “(1) IN GENERAL.—Any amount paid or dis-
8 tributed out of a medical incentives account shall be
9 included in the gross income of the account bene-
10 ficiary unless such amount is used exclusively to pay
11 (or reimburse) the medical expenses of such bene-
12 ficiary, the spouse of such beneficiary, or any de-
13 pendent (as defined in section 152) of such bene-
14 ficiary. The preceding sentence shall not apply to the
15 extent that the aggregate of such payments and dis-
16 tributions during any taxable year which are not so
17 used does not exceed the account balance as of the
18 close of the preceding taxable year.

19 “(2) PENALTY FOR AMOUNTS INCLUDED IN IN-
20 COME.—If any amount is includible in the gross in-
21 come of the account beneficiary for any taxable year,
22 such beneficiary’s tax imposed by this chapter shall
23 be increased by 10 percent of the amount so includ-
24 ible.

25 “(e) TAX TREATMENT OF ACCOUNTS.—

1 “(1) EXEMPTION FROM TAX.—Any medical in-
2 centives account is exempt from taxation under this
3 subtitle unless such account has ceased to be a med-
4 ical incentives account by reason of paragraph (2) or
5 (3). Notwithstanding the preceding sentence, any
6 such account shall be subject to the taxes imposed
7 by section 511 (relating to imposition of tax on un-
8 related business income of charitable, etc. organiza-
9 tions).

10 “(2) ACCOUNT TERMINATES IF INDIVIDUAL EN-
11 GAGES IN PROHIBITED TRANSACTION.—

12 “(A) IN GENERAL.—If, during any taxable
13 year of the individual for whose benefit the
14 medical incentives account was established,
15 such individual engages in any transaction pro-
16 hibited by section 4975 with respect to the ac-
17 count, the account ceases to be a medical incen-
18 tives account as of the first day of that taxable
19 year.

20 “(B) ACCOUNT TREATED AS DISTRIBUTING
21 ALL ITS ASSETS.—In any case in which any ac-
22 count ceases to be a medical incentives account
23 by reason of subparagraph (A) on the first day
24 of any taxable year, paragraph (1) of subsection
25 (d) shall be applied as if there were a distribu-

1 tion on such first day in an amount equal to
2 the fair market value (on such first day) of all
3 assets in the account (on such first day) and no
4 portion of such distribution were used to pay
5 medical expenses.

6 “(3) EFFECT OF PLEDGING ACCOUNT AS SECU-
7 RITY.—If, during any taxable year, the individual for
8 whose benefit a medical incentives account was es-
9 tablished uses the account or any portion thereof as
10 security for a loan, the portion so used is treated as
11 distributed to that individual and not used to pay
12 medical expenses.

13 “(f) CUSTODIAL ACCOUNTS.—For purposes of this
14 section, a custodial account shall be treated as a trust if—

15 “(1) the assets of such account are held by a
16 bank (as defined in section 408(n)) or another per-
17 son who demonstrates to the satisfaction of the Sec-
18 retary that the manner in which he will administer
19 the account will be consistent with the requirements
20 of this section, and

21 “(2) the custodial account would, except for the
22 fact that it is not a trust, constitute a medical incen-
23 tives account described in subsection (c).

24 For purposes of this title, in the case of a custodial ac-
25 count treated as a trust by reason of the preceding sen-

1 tence, the custodian of such account shall be treated as
2 the trustee thereof.

3 “(g) REPORTS.—The trustee of a medical incentives
4 account shall make such reports regarding such account
5 to the Secretary and to the individual for whose benefit
6 the account is maintained with respect to contributions,
7 distributions, and such other matters as the Secretary
8 may require under regulations. The reports required by
9 this subsection shall be filed at such time and in such
10 manner and furnished to such individuals at such time and
11 in such manner as may be required by those regulations.”

12 (b) EXCLUSION APPLIES FOR EMPLOYMENT TAX
13 PURPOSES.—

14 (1) SOCIAL SECURITY TAXES.—

15 (A) Paragraph (20) of section 3121(a) of
16 such Code is amended by striking “or 132” and
17 inserting “132, or 137”.

18 (B) Paragraph (17) of section 209(a) of
19 the Social Security Act is amended by striking
20 “or 132” and inserting “132, or 137”.

21 (2) RAILROAD RETIREMENT TAX.—Paragraph
22 (5) of section 3231(e) of such Code is amended by
23 striking “or 132” and inserting “132, or 137”.

1 (3) UNEMPLOYMENT TAX.—Paragraph (16) of
2 section 3306(b) of such Code is amended by striking
3 “or 132” and inserting “132, or 137”.

4 (4) WITHHOLDING TAX.—Paragraph (19) of
5 section 3401(a) of such Code is amended by striking
6 “or 132” and inserting “, 132, or 137”.

7 (c) TAX ON PROHIBITED TRANSACTIONS.—Section
8 4975 of such Code (relating to prohibited transactions)
9 is amended—

10 (1) by adding at the end of subsection (c) the
11 following new paragraph:

12 “(4) SPECIAL RULE FOR MEDICAL INCENTIVES
13 ACCOUNTS.—An individual for whose benefit a medi-
14 cal incentives account (within the meaning of section
15 137(c)) is established shall be exempt from the tax
16 imposed by this section with respect to any trans-
17 action concerning such account (which would other-
18 wise be taxable under this section) if, with respect
19 to such transaction, the account ceases to be a medi-
20 cal incentives account by reason of the application of
21 section 137(e)(2)(A) to such account.”, and

22 (2) by inserting “or a medical incentives ac-
23 count described in section 137(c)” in subsection
24 (e)(1) after “described in section 408(a)”.

1 (d) FAILURE TO PROVIDE REPORTS ON MEDICAL IN-
 2 CENTIVES ACCOUNTS.—Section 6693 of such Code (relat-
 3 ing to failure to provide reports on individual retirement
 4 account or annuities) is amended—

5 (1) by inserting “**OR ON MEDICAL INCEN-**
 6 **TIVES ACCOUNTS**” after “**ANNUITIES**” in the
 7 heading of such section, and

8 (2) by adding at the end of subsection (a) the
 9 following: “The person required by section 137(g) to
 10 file a report regarding a medical incentives account
 11 at the time and in the manner required by such sec-
 12 tion shall pay a penalty of \$50 for each failure un-
 13 less it is shown that such failure is due to reasonable
 14 cause.”

15 (e) CLERICAL AMENDMENTS.—

16 (1) The table of sections for part III of sub-
 17 chapter B of chapter 1 of such Code is amended by
 18 striking the last item and inserting the following:

“Sec. 137. Medical incentives accounts.
 “Sec. 138. Cross references to other Acts.”

19 (2) The table of sections for subchapter B of
 20 chapter 68 of such Code is amended by inserting “or
 21 on medical incentives accounts” after “annuities” in
 22 the item relating to section 6693.

23 (f) EFFECTIVE DATE.—The amendments made by
 24 this section shall apply to taxable years beginning after

- 1 the close of the calendar year which includes the date of
- 2 the enactment of this Act.

